**1.1 Market, Demand and Supply**

*The Determinants of Demand*

**Introduction:** The table below show the quantities of energy drinks demanded at a range of prices. Study the table and answer the questions that follow.

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| **Price ($)** | **Quantity (‘000s)** |
| 10 | 1 |
| 9 | 2.5 |
| 8 | 4 |
| 7 | 5.5 |
| 6 | 7 |
| 5 | 8.5 |
| 4 | 10 |
| 3 | 11.5 |
| 2 | 13 |
| 1 | 14.6 |
| 0 | 16 |

**Part 1 - the Law of Demand:**

1. Define *demand*.

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1. Describe the relationship between the price of energy drinks and the quantity demanded as shown in the table.

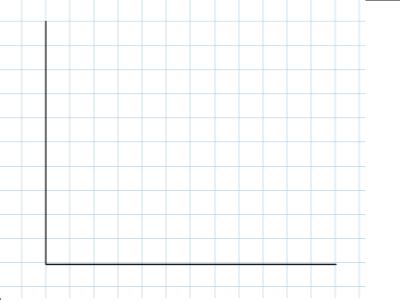
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1. What explains this relationship?

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1. Plot the data in the table on the graph below, with *price* on the vertical axis and *quantity* on the horizontal axis.

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1. Plot a point on the graph showing the quantity of energy drinks demanded at $5. Illustrate each of the following and identify the change that could cause it to happen:
   1. A movement upwards and to the left along the curve.

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* 1. A movement downwards and to the right along the curve.

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**Part 2 - the Determinants of Demand:**

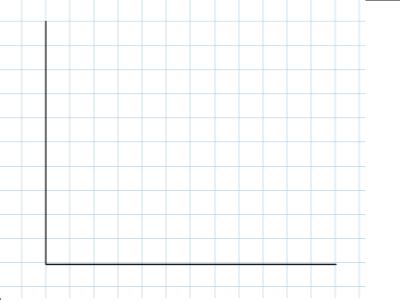
1. Assume that soda prices are falling. For most consumers, soda is a close substitute for energy drinks. Explain how this will affect the quantities demanded at each of the prices in the table above?

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1. Fill in the table below assuming the decrease in the price of soda caused a decrease decrease in the quantity of energy drinks demanded of two units at each of the prices in the original table:

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| --- | --- |
| **Price ($)** | **Quantity (‘000s)** |
| 10 |  |
| 9 |  |
| 8 |  |
| 7 |  |
| 6 |  |
| 5 |  |
| 4 |  |
| 3 |  |
| 2 |  |
| 1 |  |
| 0 |  |

1. Draw a new demand curve, showing the effect of the decrease in soda prices.



1. Besides a decrease in the price of a substitute good, identify one example of a change in each of the following determinants of demand for energy drinks that could lead to a *fall in demand for energy drinks:*
   1. The price of a complementary good:

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* 1. The tastes of consumers:

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* 1. Consumer expectations:

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* 1. Size of the market:

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1. Discuss four factors that could cause the demand for energy drinks to *increase*. Illustrate an increase in demand in the graph you drew in number 8.

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1. Distinguish between an *increase in demand* and an *increase in the quantity demanded* for energy drinks. Do these concepts mean the same thing? Why or why not?

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